the
PETROL
oil and gas
company
limited

Annual Report 1969

The Oil Industry had its start many years ago . .

During its history the continent of North America has experienced drastic changes. At various periods in geologic time, extensive seas developed on the downwarps, or depressed areas on the continent. When these depressions become filled with sediments, they are referred to as basins. Many of the oil and gas fields today are found in these ancient basins.

The Maps shown on the front cover and below are approximations of the areas covered by the seas during various periods in the past.

1. Cambrian Period (*600-500 million years ago*)
During this period, the greater portion of Canada remained relatively high and dry while much of the United States was covered by water.

2. Ordivician Period (*500-425 million years ago*)
Mountains parallel the east coast of the continent and the seas make more extensive intrusions.

3. Devonian Period (*405-335 million years ago*)
Much of the continent has now risen leaving shallow seas in the mid-west areas. Coral reefs are growing in the tropical seas in Western Canada, which will eventually form traps for major oil and gas accumulations.

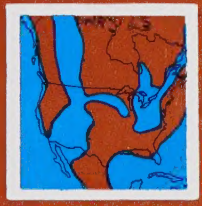
4. Carboniferous Period (*345-280 million years ago*)
Following the late Devonian period, the seas gradually withdrew but continents are not stable over long periods of geologic time and tend to tilt and warp. In the Carboniferous Period, the Pacific Ocean moved in creating a large inland sea covering most of the western portion of the United States and eventually spread northward into Canada.

5. Cretaceous Period (*135-63 million years ago*)
Once again the seas have advanced over the western part of the continent reaching from the Arctic to the Gulf of Mexico. During this period the Rocky Mountains begin to rise and the seas have swept over the continent for the last time.

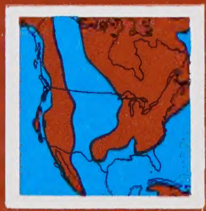
6. Miocene Period (*25 million years ago*)
The seas are now in general retreat to the south and the North American continent is beginning to approach its present form.


①


②


③


④


⑤


⑥

officers and directors

Charles S. Lee

Calgary, Alberta
President of the Company
President of Western Decalta Petroleum Limited
President of New Brunswick Oilfields, Limited
Director of Consolidated West Petroleum Limited

Alastair H. Ross

Calgary, Alberta
Vice-President of the Company
Vice-President of Western Decalta Petroleum Limited
President of Consolidated West Petroleum Limited
Vice-President of New Brunswick Oilfields, Limited

L. G. Elhatton

Calgary, Alberta
Secretary-Treasurer of the Company
Secretary-Treasurer of Western Decalta Petroleum Limited
Secretary of New Brunswick Oilfields, Limited

Harold J. Howard

Calgary, Alberta
Assistant General Manager, Crown Trust Company

James L. Lewtas, Q.C.

Toronto, Ontario
Partner of Campbell, Godfrey & Lewtas
Barristers and Solicitors

F. Richard Matthews, Q.C.

Calgary, Alberta.
Partner of MacKimmie Matthews
Barristers and Solicitors

Robert Tetrault

Calgary, Alberta
President of Alberta White Trucks (Company) Limited

Annual Meeting

The annual meeting of shareholders of the Company will be held at the Royal York Hotel, Toronto, Ontario on March 25, 1970 at 2:00 p.m., local time. A formal notice of the meeting, together with a proxy form and information circular, is enclosed with this report.

SUMMARY OF THE YEAR 1969

	1969	1968	Change
FINANCIAL			
Gross income	**$ 692,000**	$ 567,000	+ 22.0%
Cash flow	**457,000**	351,000	+ 30.2%
Per share	**.114**	.088	
Depreciation and depletion	**186,000**	162,000	+ 13.0%
Net income	**271,000**	189,000	+ 43.4%
Per share	**.069**	.047	
Working Capital (Deficiency)	**(191,000)**	306,000	—162.4%
Exploration and development expenditures	**696,000**	227,000	+206.6%
Shareholders' equity	**$3,357,000**	$3,086,000	+ 8.8%
Shares outstanding	**3,995,000**	3,995,000	
OPERATING			
Oil and condensate production — net barrels	**239,000**	195,000	+ 22.6%
Natural gas sales — net mcf	**160,000**	139,000	+ 15.1%
Proven and probable additional reserves			
Oil and condensate — gross barrels	**8,594,000**	8,967,000	— 4.2%
Natural gas — gross mcf	**19,800,000**	17,300,000	+ 14.5%
Sulphur — long tons	**90,000**	21,000	
Land holdings			
Gross acres	**12,713,000**	4,852,000	+162.0%
Net acres	**630,000**	394,000	+ 59.9%

TO THE SHAREHOLDERS

During 1969, the Company recorded new highs in gross operating revenues, cash flow, net income and volumes of oil and gas produced. In addition, the Company expanded its exploration land holdings and participated in the construction of gas processing facilities.

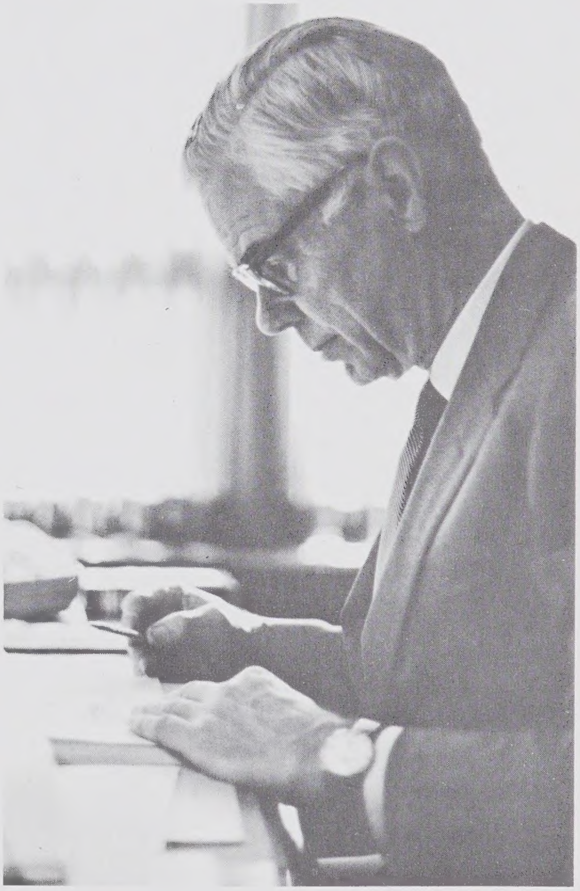
Financial

Gross revenue in 1969 amounted to $692,000, compared with $567,000 in 1968. Crude oil sales increased $125,000 to $628,000, an increase of 24.8%. Revenue from natural gas and products was $43,000 vs $41,000 last year.

Net income was $271,000 in 1969, or 7¢ per share, compared with net income in 1968 of $189,000, or 5¢ per share, representing an increase of 43.4%.

Total cash expenses amounted to $235,000 in 1969 ($215,000 in 1968), while non-cash write-offs (depreciation and depletion) increased 13.0% from $162,000 to $186,000 as a result of the higher volumes of hydrocarbons sold during the year.

Cash flow from operations rose 30.2% to $457,000 (11¢ per share), the corresponding figures last year were $351,000 (9¢ per share).



Expenditures for finding and developing oil and gas production amounted to $696,000 in 1969, the highest outlay since 1965. The major portion of these expenditures were directed:

Firstly, to expand Petrol's exploration land holdings from 4,852,000 to 12,713,000 gross acres; the equivalent wholly-owned or net acreage totals were 394,000 and 630,000 respectively. New acquisitions were made chiefly in Alaska, the Arctic Islands, the Northwest Territories and off-shore Eastern Canada.

Secondly, to a participation in the construction of a gas plant at Simonette. An immediate return on its investment will be realized from the sale of the Company's D_1 and D_3 natural gas and condensate reserves when the plant goes on full stream early in April 1970.

Analysis of Gross Income
(Thousands of Dollars)

	1969	1968
Crude Oil Sales	**$628**	$503
Natural Gas Sales	**43**	41
Royalty Revenue	**6**	6
Net Oil and Gas Sales	**677**	550
Interest and Other Income	**15**	17
Gross Income	**$692**	$567

Expenditures for Finding and Developing Production
(Thousands of Dollars)

	1969	1968
Land and Rentals	**$220**	$ 98
Geological and Geophysical	**30**	13
Non-productive Drilling	**90**	54
Productive Drilling	**85**	8
Production Equipment	**271**	54
Total	**$696**	$227

Reserves

Proven and Probable Additional	January 1 1970	1969
Crude Oil Reserves (gross bbls)	**8,594,000**	8,967,000
Residue Natural Gas (gross mcf)	**19,800,000**	17,300,000
Sulphur (gross long tons)	**90,000**	21,000

Oil Production by Fields
(Net Barrels)

	1969	1968
Alberta		
Fenn	**12,381**	12,169
Mitsue	**21,740**	15,320
Pembina	**73,377**	67,984
Simonette	**82,626**	49,702
Swan Hills	**7,292**	9,656
Turner Valley	**13,645**	11,898
Other Fields	**7,178**	6,606
	218,239	173,335
Saskatchewan		
Instow	**5,857**	6,557
Other Fields	**2,951**	4,946
	8,808	11,503
British Columbia	**864**	852
United States	**11,330**	9,746
Total	**239,241**	195,436

Gas Production by Fields
(Net Mcf)

	1969	1968
Alberta		
Ghost Pine	**45,975**	53,461
Simonette	**97,043**	63,608
	143,018	117,069
Ontario	**10,511**	13,938
Saskatchewan	**6,663**	7,843
	160,192	138,850

Production

Crude oil and condensate production totalled 239,000 net barrels in 1969, compared with 195,000 net barrels in 1968, up 22.6%. As will be noted in the accompanying table, increased crude oil production from such Alberta fields as Mitsue, Pembina and Simonette offset declines from other fields resulting from lower allowables or natural decline. The substantial increase in production from the Simonette field also reflects an upward adjustment of Petrol's participating interest in this field as provided in a farmout agreement dating back to 1953.

During 1969, the sales of natural gas were 160,000 mcf, up 15.1% from 139,000 mcf in 1969. This improvement also was chiefly derived from the Simonette field.

Reserves

Natural gas reserves increased by 14.5% to 19.8 billion gross cubic feet after allowing for the 1969 production of 181,000 gross mcf. The 2.5 billion cubic foot increase was primarily attributable to drilling at Obed, Alberta, and certain adjustments of the Company's reserves at Simonette.

Crude oil and condensate reserves declined slightly (4%) from 8,967,000 gross barrels in 1968 to 8,594,000 barrels. Apart from the 1969 production of 284,000 gross barrels, a recalculation of reserves at Simonette resulted in lower condensate volumes but higher natural gas and sulphur totals.

Sulphur reserves, mainly in the Simonette and Obed fields, increased from 21,000 to 90,000 long tons.

A summary of crude oil and condensate, natural gas and sulphur reserves, as computed by an independent consultant, is set out on the opposite page.

Exploration and Development

During 1969, the Company continued to expand the exploration phase of its operations. In conjunction with its parent company, Western Decalta Petroleum Limited, Petrol farmed out a portion of its interests in certain land blocks to other companies in return for geophysical and exploratory drilling programs on these lands. Petrol also participated in the drilling of 21 wells, 8 of which were classed as development and 13 as exploratory; 5 of the exploratory wells were drilled at no cost to Petrol under acreage earning agreements with other companies. Petrol's average interest in these wells was 5%.

Development drilling resulted in one gas well at Obed, Alberta and 3 oil wells and a gas well at Rocky Point, Wyoming. Exploratory drilling resulted in an oil well at Virgo, Alberta and a gas well at Smiley, Saskatchewan.

NORTHWEST TERRITORIES

(*see accompanying map*)

In the Territories, Petrol owns approximately 6% in 3,607,500 gross acres of exploration land or the equivalent of 223,400 wholly-owned acres. A significant portion of this land is receiving and will receive during the next three years increasing geological and geophysical evaluation. In describing some of the Company's activities in this area, we have chosen to take the properties in order from south to north. In general, when we indicate timing, ie., 1970/71, we are referring to the winter season, when accessibility permits more economical drilling and seismic operations.

(i) CORMACK LAKE - TROUT RIVER

In this area the Company owns a 10% interest in 278,000 acres, which have been farmed out on a "seismic option" basis. During 1968/69, the farmees ran 225 miles of seismic surveys and committed to drill one well during 1969/70. The evaluation of Petrol's properties will also be assisted by some 20 other wells which are scheduled to be drilled in this region by other companies.

The Company and its associates, as a group, have committed to do seismic work in 1969/70 and to drill a well in 1970/71 to earn a 50% interest in 30,000 acres, with the option to acquire a 50% interest in an additional 30,000 acres by drilling a second well. The lands involved in this venture are 18 miles northeast of our Trout River acreage. Petrol's participating interest in the group will be 3.33%.

(ii) HORN RIVER

The group of owners in this property, in which Petrol currently holds a 10% interest, have recently granted to a farmee, an option to conduct a gravity core hole and/or a seismic program during 1970. The farmee, upon completion of this project, will have the right to elect to drill 6 wells during 1970/71 to acquire a 50% interest in certain parts of the 440,000 acres involved. Further drilling could be undertaken during the following two winter seasons to earn a 50% interest in additional lands. Each well would give the farmee a 50% interest in approximately 30,000 acres.

(iii) MACKENZIE RIVER VALLEY
(Wrigley - Fort Norman - Norman Wells)

Another farmout between Petrol and its associates and an outside company has recently been completed. The area involved contains 691,000 acres and lies south of the Norman Wells oilfield between 64° and 65° north in the Mackenzie River Valley. Approximately $1,200,000 is being spent on seismic work on this acreage during 1969/70 with drilling to follow in 1970/71, depending upon the results of the seismic surveys. One well is already committed. The farmee has the right to earn a maximum of 50% in these lands by drilling a substantial number of wells over a 3 year period. Petrol's current participating interests in these lands varies from 1¼% to 10% in individual blocks of acreage.

In addition to the above, Petrol holds an average of 4% in 926,000 acres to south of the Norman Wells Devonian reef oilfield (see map).

(iv) INUVIK

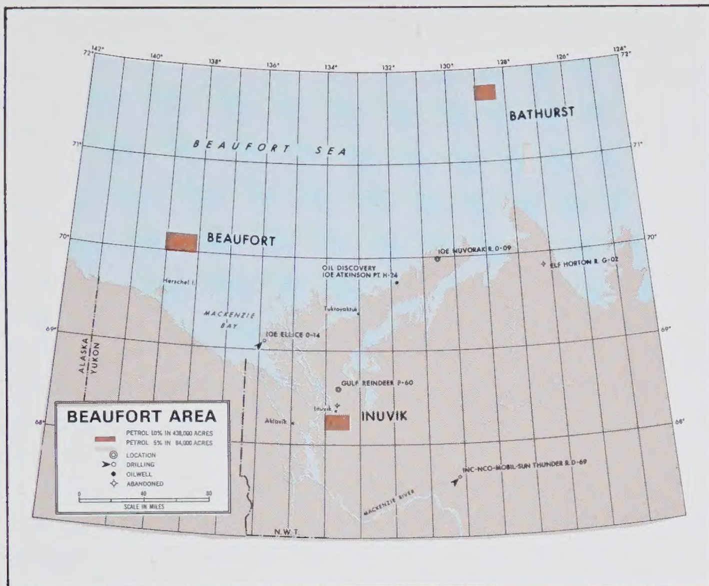
Petrol holds a 10% interest in a 142,500 acre block near Inuvik. In 1969, a well was drilled by another company 4 miles north of this property. The well was abandoned at 5,126 feet. An option has been granted on a 5% interest in these lands for a sizeable cash purchase price. A further well is being drilled by another company some 10 miles to the north.

BEAUFORT SEA — ARCTIC ISLANDS

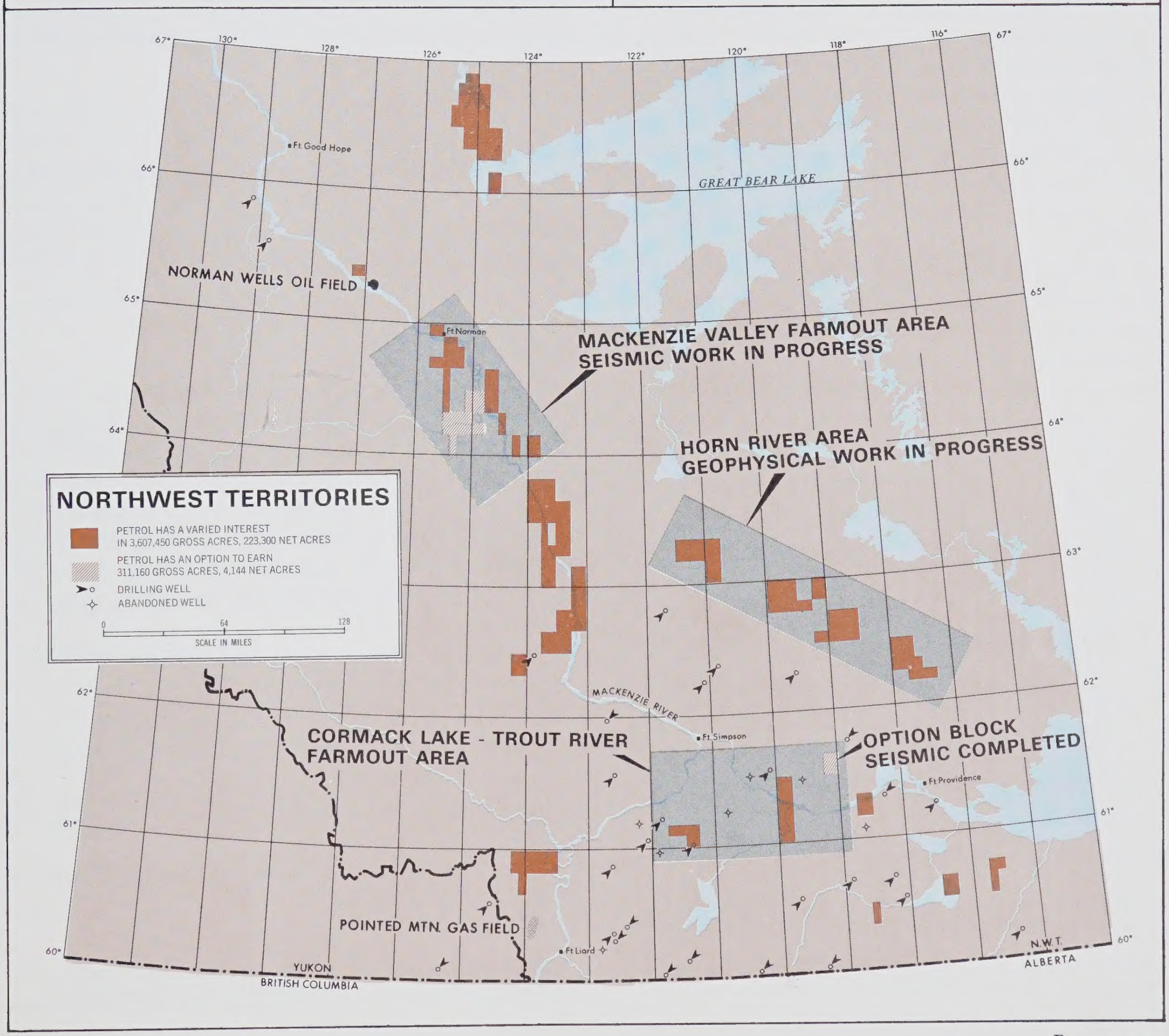
The discovery of oil at Imperial Oil's Atkinson Point well and the finding of gas at Panarctic's Drake Point well has stimulated great interest in the vast area of the Arctic Islands, Mackenzie Delta and the Arctic coastal plain. About 6 wells are being proposed for drilling in 1970 on the mainland shores in addition to the drilling programs of Panarctic, King Resources and Elf Petroleum on the Islands.

Petrol holds varying interests in 6,041,000 on and offshore acres in the Arctic Islands and the Beaufort Sea area of which 3,500,000 acres are on Prince of Wales Island and Somerset Island.

A farmout agreement was reached last year on a 174,800 acre block in the Beaufort Sea. The farmee undertakes to do 200 miles of seismic work over this block and has the right to acquire a 50% interest in the offshore permit by commencing a 15,000 foot well in 1972. The well can be delayed until 1973 provided the farmee commences a 10,000 foot well in 1972 on an 82,000 acre block on the Polynia Islands in the Arctic Islands. Petrol owns a 10% interest in these two acreage blocks.


BEAUFORT SEA
BATHURST
BEAUFORT
INUVIK
MACKENZIE BAY
ALASKA
YUKON
N.W.T.
MACKENZIE RIVER
BEAUFORT AREA
PETROL 10% IN 438,000 ACRES
PETROL 5% IN 84,000 ACRES
LOCATION
DRILLING
OILWELL
ABANDONED
SCALE IN MILES


ARCTIC OCEAN
AXEL HEIBERG ISLAND
ELLEF RINGNES I.
POLYNIA I.
PRINCE PATRICK I.
GAS DISCOVERY DRAKE PT. K-67A
MELVILLE ISLAND
DEVON ISLAND
BANKS ISLAND
VICTORIA ISLAND
PRINCE OF WALES ISLAND
SOMERSET ISLAND
ARCTIC ISLANDS
PETROL 5,519,000 GROSS ACRES
PETROL 142,000 NET ACRES
LOCATION
DRILLING
ABANDONED
0
100
200
300
SCALE IN MILES

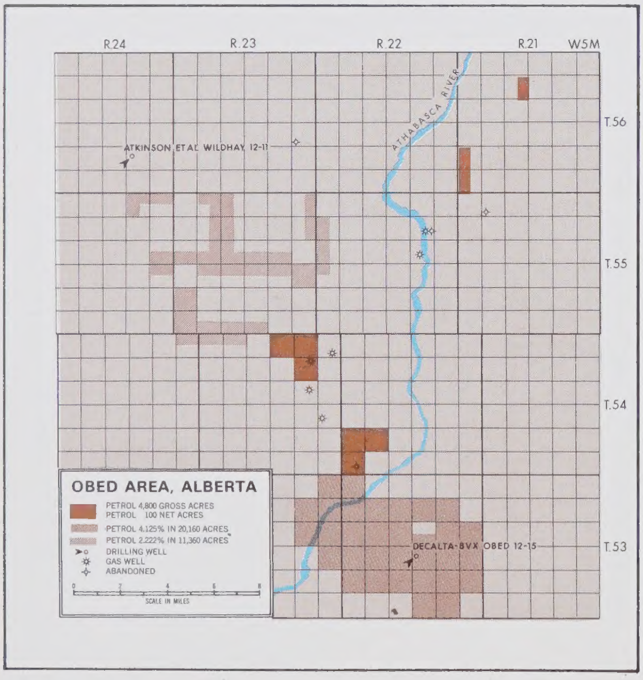

Ft. Good Hope
GREAT BEAR LAKE
NORMAN WELLS OIL FIELD
Ft. Norman
MACKENZIE VALLEY FARMOUT AREA
SEISMIC WORK IN PROGRESS
HORN RIVER AREA
GEOPHYSICAL WORK IN PROGRESS
NORTHWEST TERRITORIES
PETROL HAS A VARIED INTEREST
IN 3,607,450 GROSS ACRES, 223,300 NET ACRES
PETROL HAS AN OPTION TO EARN
311,160 GROSS ACRES, 4,144 NET ACRES
DRILLING WELL
ABANDONED WELL
0
64
128
SCALE IN MILES
MACKENZIE RIVER
Ft. Simpson
CORMACK LAKE - TROUT RIVER
FARMOUT AREA
OPTION BLOCK
SEISMIC COMPLETED
Ft. Providence
POINTED MTN. GAS FIELD
Ft. Liard
YUKON
BRITISH COLUMBIA
N.W.T.
ALBERTA

ALBERTA

OBED (*Central West Alberta*)

The Obed area lies approximately 160 miles west of Edmonton. During 1969, Petrol earned a 1.875% interest in a three section block by paying 3.75% of the costs of drilling Decalta IOE Pacific Obed 15-26-54-23 W 5. This well was completed as a D_2 gas well. Subsequently, the Company participated with its associates in the drilling of a 2½ mile south-easterly step-out to earn a 1.875% interest in another three section block. This well has since been abandoned in the Devonian although testing will be undertaken in the Mississippian and Jurassic formations. The group is drilling a step-out well to test a seismic anomaly about 5 miles south of the current development on 20,000 acres acquired at a Crown reserve sale in November, 1969 for $1,800,000. Petrol's interest in this new development is 4.125%.

At an Alberta Crown Sale held on February 26, 1970, Petrol and associates acquired an 11,360 acre drilling reservation for $76,867. This acreage is the cross-hatched area on the accompanying map. Petrol's interest is 2.22%.



WEST JUDY CREEK (*Central West Alberta*)

During December, 1969, two drilling reservations were acquired in the West Judy Creek area of Alberta. Two Viking wells were drilled by other companies off-setting each of these two reservations. This drilling resulted in one oil well and one gas well. A well will be drilled immediately on one of these reservations to test the Viking zone and also to explore for a development in the Swan Hills member which has been productive of oil in the general vicinity. Petrol has 1-2/3% interest in the 16,160 acres involved in these two reservations.

EASTERN CANADA (*Offshore*)

In 1969, Petrol acquired a "protective" acreage position in this area which is expected to receive increasing exploratory attention in the next few years. The Company owns approximately 4.5% in 1,630,000 gross permit acres.

ALASKA

Last year's report recorded the Company's 1.25% interest in 937,100 acres of "Prior Rights" on the Alaskan Slope. The difficult jurisdictional problems involving the Eskimos, Indians and Aleuts, the State and the Federal government are still being discussed, and in one case where the State took over the Federal leases on the North Slope in the Prudhoe Bay area, the "Prior Rights" were alleged by the State to have no validity.

The Company has, therefore, concentrated on acquiring leases and now holds:

(a) 1.5% in 101,516 acres 60 miles south of Prudhoe Bay

(b) 10% in 2,560 acres 50 miles south of Prudhoe Bay

(c) 3.3% in 5,005 acres 20 miles southeast of Prudhoe Bay

During the next three to six years, drilling activity on the North Slope will determine the value of these leases.

Markets

Canadian production of crude oil and condensate rose 10% during 1969, with Alberta improving its production rate in excess of 14%. The demand for Canadian crude in the Chicago area resulted in these higher volumes which have been maintained during the first quarter of 1970.

A degree of uncertainty, however, exists for oil production allowables during the remainder of the year. The United States oil import studies have been completed but decisions are not expected until mid-1970. During the next decade the outlook for Canadian oil exports is bright, but these demands could also face some adjustments beginning in 1973 as production from the North Slope of Alaska seeks a market outlet.

The natural gas segment of the industry again experienced a good year with sales rising 16% over 1968; a further 10% gain is anticipated during 1970.

With the demand for gas in the United States outstripping that industry's finding rate, the prospects for marketing gas from Canada in the next decade are extremely promising. Many previously shut-in gas wells are now being connected to market, as is the case with Petrol's gas reserves at Simonette. A gas plant has been completed in this field and is expected to go on full stream in April 1970, producing both condensate and sulphur as by-products. Owing to the extremely favorable market outlook for natural gas, the Company's management has been directing an increasing amount of effort and funds to this phase of the Company's operations.

March 2, 1970

President.

Summary of Acreage Holdings

Area	Petroleum and Natural Gas Leases		Reservations, Licenses Permits (*)		Total	
	Gross	Net	Gross	Net	Gross	Net
Alberta	450,500	34,500	127,200	23,900	577,700	58,400
Alaska	109,100	1,900			109,100	1,900
British Columbia	10,900	800			10,900	800
Hudson Bay			616,600	30,800	616,600	30,800
Maritimes (offshore)			1,630,200	73,900	1,630,200	73,900
Northern Canada:						
Northwest Territories			3,607,500	223,400	3,607,500	223,400
Beaufort Sea Area			522,400	48,100	522,400	48,100
Arctic Islands			5,518,600	142,500	5,518,600	142,500
Ontario	43,000	43,000			43,000	43,000
Saskatchewan	8,700	700	68,500	6,800	77,200	7,500
	622,200	80,900	12,091,000	549,400	12,713,200	630,300

*Convertible into leases to the extent of approximately 50%.

Consolidated Balance Sheet

	As At December 31	
ASSETS	**1969**	**1968**
CURRENT:		
Cash	**$ 17,027**	$ 35,860
Accounts receivable	**35,291**	99,436
Due from affiliated company	**150,000**	230,000
Due from parent company		5,286
Prepaid expense	**2,090**	2,502
	204,408	373,084
REFUNDABLE DEPOSITS	**219**	1,469
PROPERTY AND EQUIPMENT AT COST:		
Oil and gas properties less accumulated depletion of $1,795,762 (1968 - $1,670,010)	**3,188,804**	2,889,614
Plant and equipment less accumulated depreciation of $761,480 (1968 - $703,788)	**461,702**	250,455
	3,650,506	3,140,069
OTHER:		
Sundry investments at cost	**1,766**	796
	$3,856,899	$3,515,418
LIABILITIES		
CURRENT:		
Accounts payable and accrued charges	**$ 72,246**	$ 67,190
Due to parent company	**323,450**	
	395,696	67,190
DEFERRED PRODUCTION INCOME (Note 3)	**104,151**	362,609
SHAREHOLDERS' EQUITY:		
Capital -		
Authorized - 8,000,000 shares of no par value		
Issued - 3,995,000 shares	**2,743,500**	2,743,500
Earned surplus (see statement page 11)	**613,552**	342,119
	3,357,052	3,085,619
On behalf of the Board:	**$3,856,899**	$3,515,418

Director.

Director.

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income and Earned Surplus

	For the Years ended December 31	
	1969	**1968**
Net oil and gas sales	**$ 676,808**	$ 549,369
Interest and other income	**15,093**	17,244
	691,901	566,613
Deduct:		
Production expenses	**167,490**	152,115
General and administrative expenses	**55,578**	48,046
Interest expense	**11,778**	15,116
	234,846	215,277
Cash flow from operations	**457,055**	351,336
Depreciation and depletion	**185,622**	162,048
Net income for the year (see notes)	**271,433**	189,288
Balance of earned surplus at beginning of year	**342,119**	152,831
Balance of earned surplus at end of year	**$ 613,552**	$ 342,119

Consolidated Statement of Source and Application of Funds

	For the Years ended December 31	
	1969	**1968**
Source of funds:		
Cash flow from operations	**$ 457,055**	$ 351,336
Sale of production payments		85,000
Sale of property		70,675
Other	**280**	
	457,335	507,011
Application of funds:		
Additions to property and equipment	**696,059**	227,137
Retirement of production payments	**258,458**	217,197
	954,517	444,334
Increase (decrease) in working capital	**$ (497,182)**	$ 62,677

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

DECEMBER 31, 1969

1. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and all its subsidiaries. The accounts of a subsidiary company operating in the United States are, for purposes of consolidation, included on the basis of $1 U.S. equals $1 Canadian. Net assets so converted amounted to $239,209.

2. ACCOUNTING PRACTICE

The companies follow the full-cost method of accounting wherein all costs relative to the exploration for and the development of oil and gas reserves, whether productive or non-productive, are capitalized and depleted on the composite unit of production method based on estimated proven reserves of oil and gas. Depreciation of plant and equipment is provided at rates which are designed to amortize cost over the estimated useful life of these assets.

3. DEFERRED PRODUCTION INCOME

In prior years production payments, representing a portion of the Company's interest in future production from certain oil lands were sold. Income resulting from the sales has been deferred and is reflected in income as the oil is produced and sold. Repayments during the year amounted to $258,000, and it is expected that the balance will be retired in 1970.

4. INCOME TAXES

For income tax purposes, the Company is entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which exceed the related charges against earnings. As a result, no income taxes are payable in respect of net income reported for the year ended December 31, 1969 and at that date accumulated expenditures of $1,370,000 remain to be carried forward and applied against future taxable income. For 1969, capital cost allowance claims will be less than depreciation recorded in the accounts.

The Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants recommends income tax allocation for all differences in the timing of deductions for tax and accounting purposes which originate in the financial years commencing on or after January 1, 1968.

The Company does not believe that tax allocation in respect of drilling, exploration and lease acquisition costs is appropriate and many other companies in the oil and gas industry in Canada are in agreement with this opinion. Accordingly, no provision has been made for deferred taxes on timing differences involving such costs. Opinion Number 11 of the Accounting Principles Board of the American Institute of Certified Public Accountants does not require tax allocation on timing differences arising from intangible development costs in the oil and gas industry at this time.

Had provision for deferred income taxes been made with respect to all differences in timing of deductions for tax and accounting purposes deferred income taxes of $100,000 in 1969 ($62,000 in 1968) would have been provided and the net income for the year would have been reduced accordingly. The accumulated income tax deferrals relative to all timing differences amounted to approximately $515,000 at December 31, 1969.

AUDITORS' REPORT

To the Shareholders of
THE PETROL OIL & GAS COMPANY, LIMITED

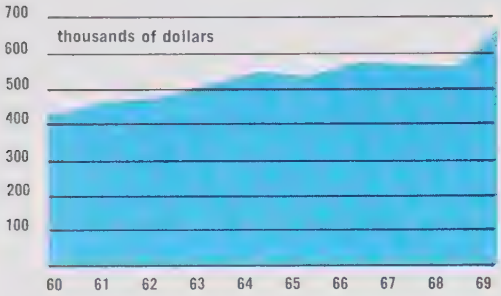
We have examined the consolidated balance sheet of The Petrol Oil & Gas Company, Limited and its subsidiary companies as at December 31, 1969 and the consolidated statements of income, earned surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of The Petrol Oil & Gas Company, Limited and its subsidiary companies at December 31, 1969, the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

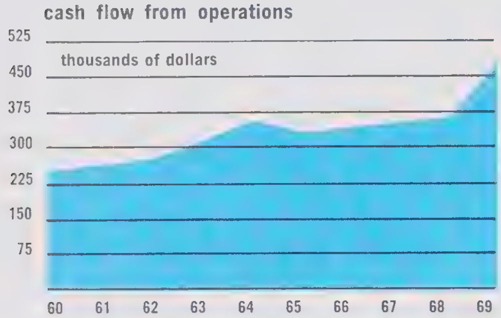
Calgary, Alberta.
January 31, 1970.

CLARKSON, GORDON & CO.
Chartered Accountants.

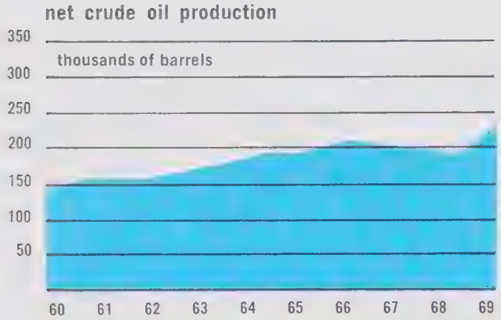
net oil & gas sales



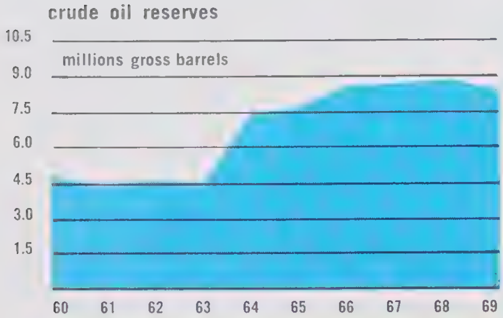
cash flow from operations



net crude oil production



crude oil reserves



ten year statistical summary

	1969	1968
Income		
Net oil and gas sales	**$ 677,000**	550,000
Interest and other income	**15,000**	17,000
Gross income	**692,000**	567,000
Expenses		
Production	**167,000**	152,000
General and administrative	**56,000**	48,000
Interest	**12,000**	15,000
Total	**235,000**	215,000
Cash flow from operations	**457,000**	351,000
Per share	**.114**	.088
Depreciation and Depletion	**186,000**	162,000
Net income (loss) on operations	**271,000**	189,000
Gain on sale of securities	—	—
Net income (loss) (2)	**271,000**	189,000
Per Share (exclusive of special gains)	**.069**	.047
Working capital (Deficiency)	**(191,000)**	306,000
Expenditures		
Exploration and development	**696,000**	227,000
Production		
Oil - net barrels	**239,000**	195,000
Gas - net mcf	**160,000**	139,000
Reserves (3)		
Oil - gross barrels	**8,594,000**	8,967,000
Gas - gross mcf	**19,800,000**	17,300,000
Land holdings		
Gross acres	**12,713,000**	4,852,000
Net acres	**630,000**	394,000
Shares outstanding	**3,995,000**	3,995,000

Notes

(1) The above statistics are for The Petrol Oil & Gas Company, Limited and its wholly-owned subsidiaries.

1967	1966	1965	1964	1963	1962	1961	1960
561,000	563,000	528,000	533,000	499,000	457,000	443,000	414,000
9,000	8,000	6,000	10,000	13,000	7,000	3,000	12,000
570,000	571,000	534,000	543,000	512,000	464,000	446,000	426,000
162,000	166,000	159,000	160,000	166,000	140,000	142,000	126,000
42,000	40,000	38,000	37,000	41,000	47,000	43,000	53,000
30,000	30,000	15,000	—	—	15,000	8,000	10,000
234,000	236,000	212,000	197,000	207,000	202,000	193,000	189,000
336,000	335,000	322,000	346,000	305,000	262,000	253,000	237,000
.084	.084	.080	.086	.076	.065	.063	.059
172,000	179,000	177,000	147,000			see note (2)	
164,000	156,000	145,000	199,000	78,000	(34,000)	11,000	9,000
—	—	22,000	9,000	20,000	8,000	32,000	—
164,000	156,000	167,000	208,000	98,000	(26,000)	43,000	9,000
.041	.039	.036	.050			see note (2)	
243,000	216,000	193,000	150,000	415,000	345,000	278,000	203,000
229,000	462,000	725,000	527,000	258,000	202,000	213,000	286,000
201,000	205,000	188,000	191,000	180,000	166,000	164,000	151,000
85,000	27,000						
8,807,000	8,805,000	7,786,000	7,458,000	4,572,000	4,617,000	4,571,000	4,899,000
18,300,000	4,900,000	5,200,000	3,700,000	3,700,000	3,700,000		
2,947,000	2,842,000	471,000	450,000	457,000	539,000	362,000	609,000
324,000	316,000	144,000	147,000	143,000	147,000	74,000	103,000
3,995,000	3,995,000	3,995,000	3,995,000	3,995,000	3,995,000	3,995,000	3,995,000

(2) Full-cost method of accounting for exploration and development expenditures was adopted in 1964.

(3) Includes proven and probable additional reserves.

corporate

transfer agents

Crown Trust Company
302 Bay Street, Toronto 1, Ontario

head office

36th Flr., Toronto-Dominion Centre, Toronto, Ontario

general office

630 - 6th Avenue S.W., Calgary 1, Alberta

listing

Toronto Stock Exchange

subsidiary companies

The Petrol Oil and Gas Corporation
Petrol Mineral Enterprises Ltd.

LITHOGRAPHED IN CANADA
COMMERCIAL PRINTERS (CALGARY) LTD

PETROL

PROGRESS REPORT MAY 1970

THE PETROL OIL AND GAS COMPANY LIMITED • 630 SIXTH AVENUE S.W., CALGARY 1. ALBERTA. CANADA

TO THE SHAREHOLDERS

FINANCIAL

First Quarter 1970 —

Gross income for the first quarter of 1970 totalled $212,000, an increase of $49,000 over the same period in 1969. Cash expenses amounted to $70,000 vs. $46,000 last year.

Cash flow from operations increased by 21% from $117,000 last year to $142,000 in 1970. Net income amounted to $71,000, an increase of $13,000 (18%) over the equivalent quarter in 1969.

OIL PRODUCTION

Net production of crude oil and condensate totalled 74,500 barrels, 35% higher than the 55,300 barrels produced in the first quarter of 1969.

Due to restrictions placed upon the export of Canadian crude to the U.S.A., effective in March, 1970, production allowables will be reduced for the remainder of the year and the first quarter's figures should not be regarded as representing the results which may be anticipated for the rest of 1970.

EXPLORATION

Northwest Territories

Drilling results this past winter in the area of the Company's Cormack Lake properties were disappointing. While one dry hole was drilled on Petrol's land, wells drilled by other companies in the immediate area were also dry. Announcements of further drilling programs by other companies however indicate considerable activity for next winter. Petrol will also participate in at least one well in this area next winter.

In the Fort Norman area of the Territories, a farmee has completed a 400 mile seismic survey. Evaluation of this data will be undertaken within the next two months to determine locations for next winter's drilling program. Two wells have already been committed.

On the Company's Horn River acreage, gravity and airborne magnetometer surveys are in progress.

Beaufort Sea - Arctic Islands

Another company has completed a seismic program across the Company's properties on the Polynia Islands in the Arctic. In the Beaufort Sea, a marine seismic program by another company will be conducted over a 174,770 acre block during the summer months. Petrol owns a 10% interest in both of the above properties. Petrol and its associates will also conduct a marine seismic survey on some of its other properties in the Beaufort Sea.

DRILLING ACTIVITY

During the first quarter, Petrol took small participating interests in the drilling of successful oil wells in the West Judy Creek and Red Earth areas in Alberta and in a gas/oil well in Matagorda Bay area of Texas. The Company also participated in the costs of drilling dry holes in two other wells in Alberta, one at Obed (Lsd. 12-15-53-22 W5M) and another at Callum Creek (Lsd. 15-15-12-2 W5M).

During the summer months, Petrol will participate in the drilling of gas prospects in the areas of Ghost Pine and Ashmont in Alberta, Makwa Lake and Premier in Saskatchewan and Matagorda Bay in Texas.

THE PETROL OIL AND GAS COMPANY, LIMITED

and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME

	First Quarter 1970	First Quarter 1969
INCOME		
Net oil and gas sales	$209,000	$159,000
Interest income	3,000	4,000
	212,000	163,000
CASH EXPENSES		
Production	48,000	34,000
General and administrative	14,000	9,000
Interest	8,000	3,000
	70,000	46,000
CASH FLOW FROM OPERATIONS	142,000	117,000
Depreciation and depletion	58,000	46,000
NET INCOME	$ 84,000	$ 71,000
CASH FLOW per common share	3.6¢	2.9¢
NET INCOME per common share	2.1¢	1.8¢

SOURCE AND APPLICATION OF FUNDS

	First Quarter 1970	First Quarter 1969
SOURCE OF FUNDS		
Cash flow from operations	$142,000	$117,000
APPLICATION OF FUNDS		
Land acquisitions and rentals	8,000	41,000
Geological and geophysical	5,000	4,000
Non-productive drilling	26,000	9,000
Productive drilling and equipment	34,000	39,000
	73,000	93,000
Retirement of production payments	36,000	73,000
	109,000	166,000
INCREASE (decrease) in working capital	$ 33,000	$(49,000)
OIL PRODUCTION		
Net barrels	74,500	55,300

Subject to audit and adjustment at year end.

AR13

THE PETROL OIL & GAS COMPANY, LIMITED

(NO PERSONAL LIABILITY)

630 - 6TH AVENUE S.W.

CALGARY, ALBERTA, CANADA

L. G. ELHATTON
PH. 269-5551

FOR IMMEDIATE RELEASE:

PETROL'S NET INCOME UP 44%

Calgary, Alberta, September 5, 1969........... Net income rose 44% to $131,000 over the first half of 1968. Increased sales of oil and gas, up 19.7%, contributed to this improvement.

Gross income totalled $330,000 vs. $276,000 last year while cash expenses were higher by $4,000 at $106,000.

Cash flow increased from $174,000 to $224,000 up 28.7%.

PRODUCTION:

Net oil production during the first half of 1969 totalled 112,300 barrels; the 19% increase over last year's volume of 94,400 barrels resulted chiefly from higher allowables in Alberta.

EXPLORATION:

The progress report covered Petrol's participation in a development drilling program at Obed, Alberta and exploration activities in the Northwest Territories. The report also noted that other companies were currently drilling adjacent to Petrol's properties at Inuvik and at Pointed Mountain in the Territories.

At Simonette, Alberta, the gas plant is currently undergoing tests prior to the marketing of the Company's gas reserves in that area early in 1970.

AR13

PETROL

PROGRESS REPORT AUGUST 1969

Sub

THE PETROL OIL AND GAS COMPANY, LIMITED • 630 SIXTH AVE. S.W., CALGARY, ALBERTA, CANADA

THE PETROL OIL & GAS COMPANY, LIMITED
CONSOLIDATED STATEMENT OF INCOME

	Second Quarter 1969	Second Quarter 1968	First Half 1969	First Half 1968	% Change
Net oil and gas sales	$163,000	$130,000	$322,000	$269,000	+19.7
Interest income	4,000	3,000	8,000	7,000	+14.3
	167,000	133,000	330,000	276,000	+19.6
Deduct:					
Production expenses	43,000	37,000	77,000	72,000	+ 6.9
General and administrative expenses	16,000	12,000	24,000	22,000	+ 9.1
Interest expense	2,000	4,000	5,000	8,000	−37.5
	61,000	53,000	106,000	102,000	+ 3.9
Cash flow from operations	106,000	80,000	224,000	174,000	+28.7
Depreciation and depletion	47,000	40,000	93,000	83,000	+12.0
Net income for period	$ 59,000	$ 40,000	$131,000	$ 91,000	+44.0

Subject to audit and adjustment at year end

FINANCIAL

Net income rose 44% to $131,000 over the first half of 1968. Increased sales of oil and gas, up 19.7%, contributed to this improvement.

Gross income totalled $330,000 vs. $276,000 last year while cash expenses were higher by $4,000 at $106,000.

Cash flow increased from $174,000 to $224,-000 up 28.7%.

Details of sources of income and expenditures since the beginning of the year are shown in the comparative Source and Application of Funds Statement opposite.

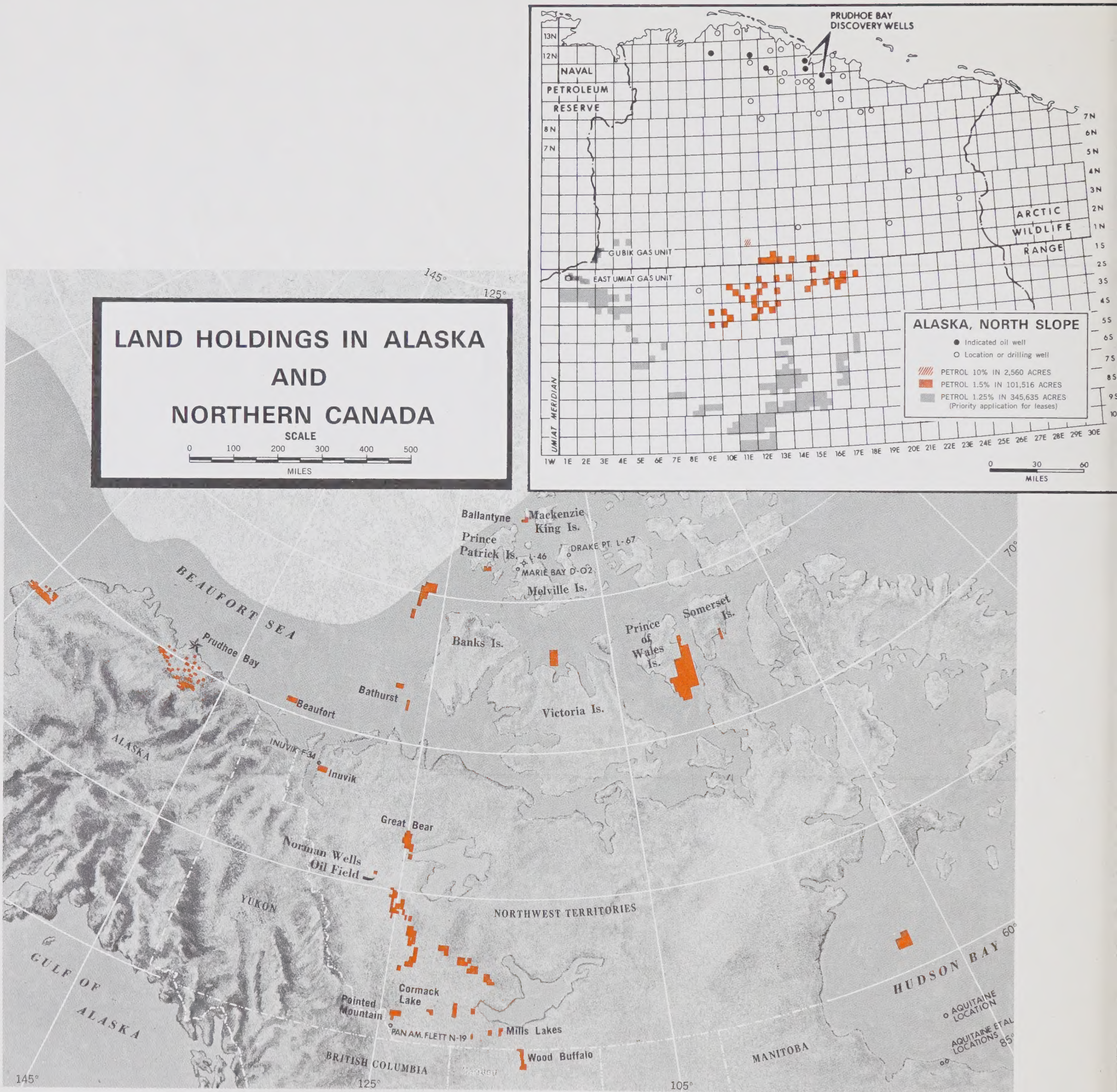
PRODUCTION

Net oil production during the first half of 1969 totalled 112,300 barrels; the 19% increase over last year's volume of 94,400 barrels resulted chiefly from higher allowables in Alberta.

SOURCE AND APPLICATION OF FUNDS

	First Half 1969	First Half 1968
Source of Funds:		
Cash flow from operations	$ 224,000	$ 174,000
Sale of production payments	–	85,000
Sale of property	–	30,000
	224,000	289,000
Application of Funds:		
Land acquisitions and rentals	87,000	19,000
Geological and geophysical	8,000	1,000
Non-productive drilling	18,000	11,000
Productive drilling and equipment	207,000	32,000
	320,000	63,000
Retirement of production payments	137,000	96,000
	457,000	159,000
Increase (decrease) in working capital	$(233,000)	$ 130,000

AREAS OF MAJOR INTEREST



Attention focuses on Inuvik and Pointed Mountain properties as others drill close by; Hudson Bay sediments to be evaluated by first offshore probe; Cormack Lake area awaits freeze-up for active drilling program.

Obed, Alberta

In our last Progress Report, we advised that Petrol would earn a 1.875% interest in a 3 section block by paying 3.75% of the costs of drilling Decalta IOE Pacific Obed 15-26-54-23 W5. This well has since been completed as a D_2 gas well.

In order to further delineate the size of this D_2 gas field, a 2¼ mile southerly stepout has been commenced. The well is known as Decalta IOE Pacific Obed 7-6-54-22 W5. Petrol will again earn a 1.875% interest in 3 sections (shown on the map with a dotted line) by participating in the costs of drilling the well (3.75%).

Success at this new location would obviously increase the gas reserves in this area materially and thereby assist in the determination of the size of a gas plant required for the area. Following the drilling of the 7-26 well, Petrol will have a further option to earn an interest in Section 25-54-23 W5 by participating in the drilling of another well.

To the Northeast of the area of immediate interest, Hudson Bay Oil & Gas is currently drilling a deep Devonian test, HB et al Nosehill 4-32. This well lies approximately one mile from the southern portion of 640 acre block in which Petrol holds a 5% interest.

The Mackenzie Delta

Inuvik — Your Company owns a 10% interest in a 143,000 acre block at Inuvik, N.W.T. which is now being offset by drilling to the north. The well is known as Amoco-Ulster-Scurry Inuvik F-34.

Alaska

Relatively little information has been released in the last few months on the results of drilling activity in Alaska. This data has been held "tight" pending the sale of North Slope lands on September 10, 1969. The size of the bids and the release of drilling results will give the industry a better idea of the potential of this area. Petrol's interests in the North Slope are shown on the accompanying map.

Beaufort Sea

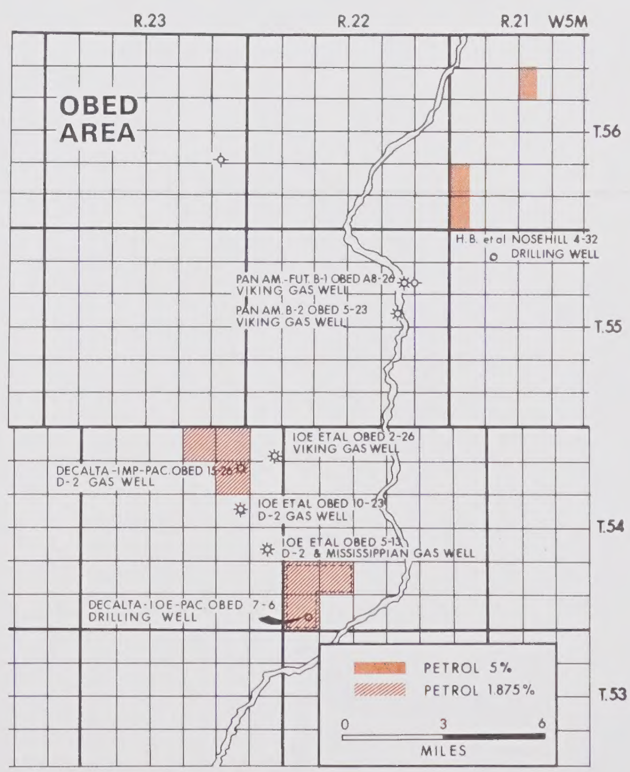
As stated in our past Progress Report, Petrol owns a 10% interest in a 174,000 acre block across which another company committed to run approximately 200 miles of seismic surveys. This work is now being completed and the above company has until December 1, 1969 to decide whether it will commence the drilling of a well by the summer of 1971 to earn a 50% interest in the block.

Arctic Islands

Your company has recently acquired a 3.3% interest in 1,008,000 acres offshore and to the northwest of Banks Island (see map).

Drilling activity on Melville Island continues. Panarctic Oils has recently completed the task of bringing Drake Point L-67 under control after a high pressure gas blow-out in July. The well is now being readied for further drilling. To the west, Sandy Point L-46 has been abandoned after encountering some oil staining at the

Continued on back page



ARCTIC ISLANDS

Continued from previous page

4,500 foot level. The rig is now being moved to commence another test at Marie Bay D-02, about 6 miles southwest of Sandy Point.

Northwest Territories

The area along the Mackenzie River Valley and the southern portion of the Territories will be subject to an intensive exploratory activity as freeze-up returns to the north. Your Company's holdings in this area consists of varying interests (3% to 20%) in individual blocks totalling some 3,300,000 acres. Owing to these extensive holdings, any discovery in the area will be of special significance to Petrol.

Cormack Lake — At least one well will be drilled on the Company's acreage following freeze-up. Another 7 wells are expected to be drilled in the immediate area and a further 10 in the general area of the Company's Cormack Lake holdings.

Pointed Mountain

A photogeological interpretation of the structure on the Pointed Mountain property is currently underway; confirming field work is to be done late in August. Petrol holds a 10% interest in 156,000 acres.

Some 6 miles south of the Pointed Mountain acreage, Pan Am Flett N-19 is currently drilling ahead.

Petrol's acreage has been optioned to another company to earn a 50% interest by drilling; the option requires a decision by October 31, 1969. Adjacent to the 156,000 acres, Petrol has acquired a 2.5% interest in an additional 62,000 acres. The announcement of a proposal to build a major transmission line to Pointed Mountain has heightened the prospects of early marketing for gas reserves discovered in the area.

Hudson Bay

The drilling by Aquitaine of an offshore well in Hudson Bay will provide important geological information regarding the sediments underlying this area. The rig has now reached the location shown on the accompanying map. Petrol owns a 5% interest in 616,000 acres to the northwest.

Simonette, Alberta

The gas plant at Simonette is now being completed and test runs are being conducted. The marketing of Petrol's gas and liquid product reserves in this area will commence on a full scale on approximately March 1, 1970 when the main gas transmission line is expected to be connected to the plant.